



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

TO: Participating Schools and Lenders

FROM: Diane Todd Sprague, Director 

DATE: October 24, 2005

SUBJECT: Educational Loan Notes

2005 FALL SCHOOL UPDATE WORKSHOPS

The Michigan Guaranty Agency (MGA) is gearing up for our 2005 Fall School Update Workshops. These workshops offer an interactive format to provide you with the latest information to help you administer federal student loans. As always, there is no cost to your institution for attendance at our workshops. They will be held at the following locations:

Tuesday, November 15, 2005
Schoolcraft College
VisTaTech Center
Livonia, Michigan

Wednesday, November 16, 2005
Kalamazoo Valley Community College
Michigan Technical Education Center (M-Tec)
Kalamazoo, Michigan

Agenda topics include:

- ***Policy and regulatory update.*** This session reviews the progress of the reauthorization of the Higher Education Act of 1965. The session also previews updates to the 2006-2007 Free Application for Federal Student Aid (FAFSA) and the federal student aid delivery system.
- ***FAFSA worksheets.*** Certain questions on the FAFSA instruct students and parents to complete FAFSA worksheets A, B, and C which collect information about a family's untaxed income and benefits received. The federal processor uses these amounts to further define a student's financial need. This session covers the information collected on the FAFSA worksheets and how it affects financial need.
- ***Uncommon assets affecting financial need.*** For federal financial aid purposes, assets are defined as property that is owned by the student's family and has an exchange value. In determining financial need, three types of assets are taken into account in addition to cash, savings, and checking accounts. These assets are investments, businesses, and investment farms. This session explores some of the less common types of assets.



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- ***Stress management.*** Eliminating all stress from your life is impossible, so learning how to manage your stress can be one of the best ways to reduce its harmful effects. This session will help you learn ways to manage stress in your work and personal lives.
- ***FERPA.*** The Family Educational Rights and Privacy Act (FERPA) was designed to protect personally identifiable information within students' educational records. Most of the information maintained in the financial aid office falls under the FERPA regulations. This session reviews what information is covered by FERPA, whose rights are protected, how these requirements affect the financial aid office, and what procedures should be followed to ensure compliance.

SPECIAL AFTERNOON SESSION

- ***Student Retention.*** Why are you losing students before they graduate? What can you do to strengthen student success? Tim Culver, Associate Vice President, Retention Consulting, Noel-Levitz, will be speaking on student retention in the afternoon. Mr. Culver consults directly with institutions, helping them identify retention enhancement opportunities. With a technological and strategic planning background, Mr. Culver offers a unique perspective when developing and implementing successful enrollment management and student success programs. He has assisted in the creation of recruiting, enrollment management, retention, and communication plans, as well as the analysis of institutional research. His extensive background with Title III and Title V allows him to assist institutions with the development of federal and state grant applications.

MGA would like to invite any school personnel (admissions, enrollment management, registrars, business office, counseling office, etc.) to join us for lunch and attend this session.

The meeting sites are handicapped accessible, including parking. Individuals with disabilities who need mobility, visual, hearing, and/or other assistance for effective participation should indicate such needs when registering. All such requests should be directed to Nancy Vaughn at 1-800-642-5626, extension 31871, at least ten days before the workshop. Requests received after that time cannot be guaranteed.

Registration and continental breakfast will begin at 8:30 a.m., with the first session starting at 9:00 a.m. Lunch will be provided, and we plan to conclude at approximately 3:00 p.m. Registration materials were recently sent via email.

If you have any questions or concerns regarding registration, please contact Stacy Cardwell at extension 36074. For questions or suggestions to include in the workshops, please feel free to contact Nancy Vaughn at the number noted above or via email at vaughnn@michigan.gov.

LOANS THAT ARE IN A SUSPEND STATUS

Occasionally, after a school transmits a student loan, it will suspend due to system edits. Before the issue is resolved, some schools retransmit the loan creating a duplicate loan record which causes that loan to suspend. By the time the original loan suspend is resolved, the loan cannot be guaranteed as duplicate loans exist on the system in a suspend status.

As a rule, schools should only retransmit student loans at the request of MGA or its servicer Sallie Mae. If you have a question concerning a loan for which you did not receive a guarantee, please contact MGA's Customer Services Unit at extension 77009 for assistance.

COHORT DEFAULT RATES: NATIONAL AND MICHIGAN SCHOOLS

In September, the U.S. Department of Education (ED) released the 2003 Cohort Default Rates (CDR). The national CDR of 4.6 percent is the lowest on record. The CDR for all the schools in the state of Michigan is 3.7 percent. MGA has issued Certificates of Achievement to those schools that reduced their CDR by two percent from their 2002 CDR. Certificates of Achievement were also sent to schools that have had a CDR of less than ten percent for the last three consecutive years. Award of Excellence certificates were sent to schools that have had a CDR below five percent for the last three consecutive years.

Attached to this issue of *Educational Loan Notes* is a comparison of the national cohort default rates for the past three fiscal years broken down by school sector. A comparison of Michigan schools' cohort default rates for the past three years is also attached.

BORROWER DEBT MANAGEMENT SERVICE

The Borrower Debt Management Service has been enhanced. Schools that are subscribed to this service receive a file that contains individual borrower loan debt reports. These reports generate between 60 and 90 days prior to the time the borrower graduates from your school.

Currently individual borrower loan debt reports include only MGA loans. Effective October 24, 2005, these reports will also include all loans on the National Student Loan Data System (NSLDS). This enhancement will more accurately reflect the total amount of debt for each of your students.

The second enhancement will allow MGA to correct graduation dates and rerun individual borrower loan debt reports even if the graduation date is in the past. MGA believes these enhancements make this report an even more valuable tool for schools to use with their exit counseling materials.

If your school is currently subscribed to this service you do not need to contact us. If you have turned this service off and now want it reactivated, please contact Stacy Cardwell at extension 36074 or via email at cardwells@michigan.gov.

EXIT COUNSELING CONSIDERATION

New to schools that participate in the Federal Family Education Loan Program (FFELP) is the option that allows students to consolidate their loans while they are still attending school. These students may need special consideration in terms of the information they receive in exit counseling.

It is important to remember that the student waived his/her grace period in order to enter repayment early and consolidate his/her loans. Therefore, the student is not going to have a six-month grace period on that Consolidation loan when the student leaves school and will instead have to begin repayment on that loan immediately.

It is recommended that schools amend their exit counseling materials to include information about the absence of a grace period for an in-school Consolidation loan and deferment options that in-school Consolidation loan borrowers may want to pursue directly after exiting school (such as the unemployment deferment) to temporarily delay the repayment obligation on their Consolidation loan.

LESSON\$ IN DOLLAR\$

Several staff members from MGA are volunteering their time to participate in the LESSON\$ IN DOLLAR\$ program sponsored by the Michigan Student Financial Aid Association's Early Awareness Multicultural Outreach Committee. This year's program is being held at Cedar Springs High School. There will be 83 students participating in the seven-week program which began on Tuesday, October 18. By the end of the seven weeks, the students of Cedar Springs High School will have learned the following:

(Continued on the next page.)

Week 1: Program goals and expectations are established with an overview of the Lessons in Dollars syllabus along with a discussion of the class essay and career selection.

Week 2: Financing your education is a critical part of obtaining a college education. The students learn about financial aid, the eligibility requirements, how to apply, and the types of aid available.

Week 3: College choices and time management are important factors in college success. Several concepts such as scheduling classes for success, the number of college credits taken in a semester or term, study habits, employment, and work study are discussed during this session.

Week 4: Extreme Reality: Do you envision yourself driving a Cadillac Escalade or a used vehicle? Will you live in a luxurious dream home or a two-bedroom trailer? Browse “Extreme Reality” and determine if your career and life choices allow you to live the life you anticipated for yourself.

Week 5: Student responsibilities and debt management are key components to adapting to college life. Week five provides information on satisfactory academic progress, tuition payments, refunds, disbursements, late fees, holds (academics, financial, and counseling), short-term loans, credit cards, and loan options such as deferments, forbearances, and consolidation.

Week 6: Completing the FAFSA, scholarship searches, and Web sites are key components to obtaining financial assistance. Students will have an opportunity to use the Internet to complete the FAFSA and conduct a scholarship search using FastWeb.

Week 7: A summary of the program along with questions and answers occurs during the final session. Scholarship awards are presented to the recipients based on the essays, and other recognitions are made, as well.

If you would like to volunteer to assist with this program or any programs in the future, please contact Stephanie Bogard at extension 12101 or via email at bogards1@michigan.gov.

SPECIAL ALLOWANCE RATES

The special allowance rates for the quarter ending September 30, 2005, have been released by the Office of Federal Student Aid. The average of the bond equivalent rates of the 91-day Treasury bills auctioned during the quarter ending September 30, 2005, is **3.46** percent. Also, the average of the bond equivalent rates of the quotes of the three-month commercial paper (financial) rates in effect for each of the days in the quarter ending September 30, 2005, is **3.74** percent.

Attached to this issue of *Educational Loan Notes* are special allowance charts with rates based on the 91-day Treasury bill average and the three-month commercial paper average for the quarter ending September 30, 2005.

For questions, please contact Betty Calloway at extension 39639 or via email at callowayb@michigan.gov.

TOTAL AND PERMANENT DISABILITY CLAIM ISSUES RESOLVED

Representatives of the Federal Family Education Loan Program (FFELP) community and ED resolved several issues involving the process of assigning loans to the Conditional Disability Discharge Unit for the conditional discharge process. The resolution of two of the issues affects how a lender or servicer determines if the *Loan Discharge Application: Total and Permanent Disability* form is acceptable for filing claims with MGA.

In order to ensure assignment acceptance by ED for the conditional disability discharge process, lenders and servicers should implement the following changes effective immediately for any claim filed due to a borrower's total and permanent disability:

- Any change or alteration to field 3.b (the date the borrower became unable to work and earn money) must be accompanied by documentation from the physician explaining the change or alteration.

(Continued on the next page.)

- Changes to Section 1 (Borrower Identification) do not need to be initialed or explained.
- Any changes or alterations other than in Section 1 or field 3.b. must be initialed by the physician in close proximity to the item being changed.

For more detailed information regarding this guidance, please contact Bev Bristol at extension 60630 or via email at bristolb@michigan.gov.

ED PROVIDES NEW GUIDANCE ON TEACHER LOAN FORGIVENESS

ED recently issued new guidance for teacher loan forgiveness as provided for under the Taxpayer-Teacher Protection Act (TTPA) (P.L. 108-409). The new guidance states that a “highly qualified” teacher is one who meets the standards of the definition contained in the No Child Left Behind (NCLB) Act – without regard to the date of enactment of NCLB. Prior to this new guidance, the five years of qualifying service required for loan forgiveness could not begin before January 8, 2002.

Under the new guidance, some borrowers may immediately qualify for the increased \$17,500 level of teacher loan forgiveness if they are highly qualified and have taught math, science, or special education for five years at schools located in high poverty areas. The loan for which forgiveness is sought must have been made prior to the end of the borrower’s fifth year of qualifying teaching service (§682.215).

ED’s Office of General Counsel has also reviewed the interpretation of the effective date language applicable to increased teacher loan forgiveness in P.L. 108-409.

The effective date language as interpreted by ED **eliminates** the increased loan amount of up to \$17,500 for “new borrowers” (as that term is defined in section 103 of the HEA) who borrow on or after October 1, 2005. It is assumed based on pending higher education bills in both the House and the Senate that borrower eligibility will continue to be retroactive back to the 10/1/98 effective date provided for in the TTPA, thereby eliminating any negative impact on eligible new borrowers on or after October 1, 2005.

LENDER LIST UPDATES

School personnel continuing to use their paper copy of MGA’s “Participating Lender List” should record the following actions on the list dated April 28, 2005. Please make the appropriate changes in all sections of the list as needed.

To access the most up-to-date lender information and eliminate the need for manual updates, use the electronic version of MGA’s “Participating Lender List” available at michigan.gov/mistudentaid. Click on “Financial Aid Administrators,” and then on “[Participating Lender List](#).” If you have any questions regarding MGA’s “Participating Lender List,” please contact Pat Fromm at extension 36076 or via email at frommp@michigan.gov.

Newly Participating Lender

Goal Financial, LLC, 834119, c/o ACS, 2277 East 220th Street, Loan Beach, CA 90810-1690. Telephone: 800-835-4611.

Dowagiac Area Federal Credit Union, 832042, c/o Nelnet, Inc., P.O. Box 82596, Lincoln, NE 68501-2596. Telephone: 800-874-3150.

Joined Referral Program

Clinton County Federal Credit Union, 222020, has joined the LaSalle Bank referral loan program. The address for this lender is c/o Nelnet, Inc., P.O. Box 82596, Lincoln, NE 68501-2596. Telephone: 800-755-7858.

No Longer Participating

Safe Harbor Credit Union, 815723, is no longer participating in FFELP with MGA. Please delete this lender code from all sections of the Participating Lender List.



“Q” AND “A”
LOAN DISCHARGES

What is a loan discharge?

A loan discharge is a release of a borrower's obligation to repay all or part of their student loan.

What is the difference between having a loan discharged or forgiven?

Loan forgiveness occurs when a borrower is released from the obligation to repay all or part of his or her student loan because of **public service** rendered by the borrower. Loan forgiveness may be viewed as a sort of “like-kind” exchange by offering service in lieu of loan repayment.

Loan discharges occur as a result of something that has occurred to the borrower that prevents him or her from repaying the student loan (e.g., disability, death) or as the result of an unfair/illegal action by the school (e.g., false certification, a borrower entitled to, but did not receive, a refund from their school).

What happens to a loan that has been discharged?

In the FFELP program there are circumstances where lenders may file claims to a federally designated guarantor on loans that are eligible for discharge. A guaranty agency then reviews the borrower's discharge eligibility and purchases the loan from the lender.

If the guarantor purchases a discharged loan from the lender, is the borrower in default and therefore ineligible for additional loans?

As a rule, if a default occurs because of a loan discharge, it is always best to check with the guaranty agency or loan holder to determine further loan eligibility. In most instances, the borrower may regain loan eligibility after meeting a few requirements.

I understand why a borrower's discharged loans would make him/her ineligible for additional loans, but what about grants?

In some instances a discharged loan may affect a borrower's ability to borrow additional money, but not affect a borrower's eligibility for additional Pell, Federal Supplemental Educational Opportunity Grant (FSEOG), and Federal Work Study (FWS) funds.

For example, a borrower that has received a discharge due to total and permanent disability is ineligible for additional loan funds until the borrower is able to prove that he or she is able to attend school and work to pay off any newly acquired loan debt. However, that same borrower would be eligible for Pell, FSEOG, and FWS funds without any additional requirements (see Common Manual 5.4.B and Figure 5-1 for the complete list of *Title IV Loan Status on Student Aid Eligibility*).

What are the different types of discharges available to borrowers?

Borrowers are currently able to have their loans discharged due to:

- | | | |
|-----------------|------------------------------|--|
| ▪ Bankruptcy | ▪ Death | ▪ Total and permanent disability |
| ▪ Closed school | ▪ False school certification | ▪ Being entitled to, but did not receive, a refund from their school |

Have a question you would like to ask? Contact Justin Draeger at extension 31940 or via email at draegerj@michigan.gov to submit your question or to suggest a topic you would like to see discussed in a subsequent issue of *Educational Loan Notes*.

Calendar of Upcoming Events

October 2005

30-Nov. 2 Electronic Access Conference
San Diego, California

November 2005

11 MGA Offices Closed

15 MGA Fall School Workshop
VisTaTech Center
Schoolcraft College
Livonia, Michigan

15 Mapping Your Future Evening Chat
Managing your student loans, including
repayment options, consolidation, and
cancellation.
7:00 – 8:00 p.m. Eastern

16 MGA Fall School Workshop
Michigan Technical Education Center
Kalamazoo Valley Community College
Kalamazoo, Michigan

18 MSFAA High School Counselor Workshop

24-25 MGA Offices Closed

29-Dec. 2 Electronic Access Conference
Atlanta, Georgia

December 2005

14 Mapping Your Future Evening Chat
Loan Consolidation
7:00 – 8:00 p.m. Eastern

13 Guaranty Agency Advisory Committee Meeting
State Library and Museum
Lansing, Michigan

23 MGA Offices Closed

26 MGA Offices Closed

30 MGA Offices Closed

If you need further information or wish to submit items for the calendar, please contact Jim Peterson, Editor, at extension 36944, or via email at petersonj@michigan.gov.

Federal Direct Loan and Federal Family Education Loan Programs

Institutional Default Rate Comparison of Fiscal Year 2001, 2002, and 2003 Cohort Default Rates

Note: These rates are accurate as of September 12, 2005.

	FY 2001				FY 2002				FY 2003			
Institution Type	Number of Schools	Borrower Default Rate	Number of Borrowers Defaulted	Number of Borrowers Entered Repayment	Number of Schools	Borrower Default Rate	Number of Borrowers Defaulted	Number of Borrowers Entered Repayment	Number of Schools	Borrower Default Rate	Number of Borrowers Defaulted	Number of Borrowers Entered Repayment
Public	1,713	5.30%	71,077	1,316,719	1,681	5.10%	66,297	1,295,318	1,663	4.30%	59,460	1,356,086
Less than 2 yrs	168	7.20%	387	5,366	165	6.70%	396	5,851	159	5.80%	359	6,182
2-3 yrs	930	8.60%	26,148	301,125	908	8.50%	25,695	299,379	895	7.60%	25,259	328,730
4yrs(+)	615	4.40%	44,542	1,010,228	608	4.00%	40,206	990,088	609	3.30%	33,842	1,021,174
Private	1,888	3.50%	23,360	667,002	1,837	3.20%	22,019	669,099	1,812	2.80%	19,523	695,576
Less than 2 yrs	83	9.30%	263	2,810	65	9.70%	289	2,954	55	7.90%	265	3,326
2-3 yrs	273	6.80%	1,353	19,719	248	6.10%	1,348	21,959	247	6.30%	1,477	23,160
4yrs(+)	1,532	3.30%	21,744	644,473	1,524	3.10%	20,382	644,186	1,510	2.60%	17,781	669,090
Proprietary	2,215	9.00%	35,485	391,531	2,000	8.70%	37,269	423,631	1,950	7.30%	36,477	493,895
Less than 2 yrs	1,335	10.80%	11,090	102,569	1,131	10.10%	11,092	108,748	1,054	7.90%	9,302	117,166
2-3 yrs	704	9.30%	14,606	157,045	681	9.20%	14,801	160,432	688	8.00%	14,469	179,553
4 yrs(+)	176	7.40%	9,789	131,917	188	7.30%	11,376	154,451	208	6.40%	12,706	197,176
Foreign	420	2.30%	113	4,905	436	2.00%	111	5,434	411	1.80%	108	5,844
Unclassified	4	0.10%	1	584	1	0.00%	0	294	1	0.00%	0	31
Total	6,240	5.40%	130,036	2,380,741	5,955	5.20%	125,696	2,393,776	5,837	4.50%	115,568	2,551,432

This table reflects all borrowers who entered repayment during the given fiscal year as reported to the National Student Loan Data System (NSLDS). Some of these borrowers attended schools that are no longer eligible for Title IV program participation. The information provided in the downloadable or searchable reports on ED's Web site is limited to schools that, at the time of the most recent calculation, were eligible for participation in the Title IV programs. Therefore, since this table is based on a larger population, totals derived from the downloadable or searchable reports will not fully reconcile with the above figures.

**All State of Michigan Schools
Cohort Default Rates
Years 2003, 2002, and 2001.**

Type	Number of Schools	Number of Defaulted Borrowers	Number of Borrowers Entering Repayment	Cohort Default Rate 2003	Cohort Default Rate 2002	Cohort Default Rate 2001
Public 4 -Year	15	1,053	42,600	2.5%	3.4%	4.1%
Public 2 - Year	27	601	10,278	5.8%	8.5%	9.3%
Private 4 - Year	43	1,146	26,244	4.4%	5.9%	6.8%
Proprietary	25	368	7,336	5.0%	8.6%	12.2%
Totals	110	3,168	86,458	3.7%	5.1%	5.9%

10/19/2005

**91-DAY TREASURY BILL
SPECIAL ALLOWANCE RATES
FOR
QUARTER ENDING SEPTEMBER 30, 2005**

	Loan Rate	Special Allowance Annual Rate	SA Quarterly Rate	Special Allowance Category
SA	7% 9%	0 0	0 0	<u>SA</u> - for loans made before 10/01/81.
SB	7% 8% 9%	0 0 0	0 0 0	<u>SB</u> - for Stafford (subsidized) and PLUS loans made on/after 10/01/81 but before 10/17/86 or loans made on/after 10/17/86 but before 11/16/86, for enrollment periods beginning before 11/16/86.
SD	7% 8% 9% FVAR10 (4.17%) PLUS/SLS Var (4.81%) FVAR7, FVAR8, FVAR9, EVAR (4.32%)	0 0 0 .0202 0 .0187	0 0 0 .005050 0 .004675	<u>SD</u> - for Stafford (subsidized) and PLUS/SLS loans made on/after 10/17/86 but prior to 11/16/86 for enrollment periods beginning on/after 11/16/86. For Stafford (subsidized) and PLUS/SLS loans made on/after 11/16/86 but before 10/01/92. Also for Stafford (unsubsidized) loans made prior to 10/01/92 for periods of enrollment beginning on/after 10/01/92.
SE	FVAR7 (4.17%) FVAR8 (4.17%) FVAR9 (4.17%) FVAR10 (4.17%) EVAR (4.17%) PLUS/SLS Var (5.26%)	.0187 .0187 .0187 .0187 .0187 .0078	.004675 .004675 .004675 .004675 .004675 .001950	<u>SE</u> - for Stafford loans made on/after 10/01/92 but prior to 07/01/94, regardless of the enrollment period, or loans made after 07/01/94 for an enrollment period ending prior to 07/01/94. Also, for PLUS loans made on/after 10/01/92 but before 07/01/94. Also, for SLS loans made on/after 10/01/92 but before 07/01/94; or certified before 07/01/94 and disbursed after 07/01/94.
SG	Stafford Var (4.17%) PLUS Var (5.26%)	.0187 .0078	.004675 .001950	<u>SG</u> - for Stafford loans made on/after 07/01/94 but before 07/01/95, or loans made on/after 07/01/95 but before 07/01/98, during periods of repayment or forbearance. Also, for PLUS loans made on/after 07/01/94 but before 07/01/98.
SH	Stafford Var (3.57%) PLUS Var (5.26%)	.0187 0	.004675 0	<u>SH</u> - for Stafford loans made on/after 07/01/95 but before 07/01/98 only during the in-school, grace, and deferment periods. Also, for PLUS loans made on/after 07/01/98 but prior to 01/01/00.
SJ	Stafford Var (2.77%)	.0237	.005925	<u>SJ</u> - for Stafford loans made on/after 07/01/98 but prior to 01/01/00 only during the in-school, grace, and deferment periods.
SK	Stafford Var (3.37%)	.0237	.005925	<u>SK</u> - for Stafford loans made on/after 07/01/98 but prior to 01/01/00 only during the repayment and forbearance periods.

PLEASE NOTE: The 91-day T-bill average (bond equivalent rate) is **3.46%** for the third quarter of **2005**. This results in the following yields:

SA 3.46% plus 3.50% = 6.96%	SG 3.46% plus 3.10% = 6.56%
SB 3.46% plus 3.50% = 6.96%	SH 3.46% plus 2.50% = 5.96%
SD 3.46% plus 3.25% = 6.71%	SJ 3.46% plus 2.20% = 5.66%
SE 3.46% plus 3.10% = 6.56%	SK 3.46% plus 2.80% = 6.26%

**91-DAY COMMERCIAL PAPER
SPECIAL ALLOWANCE RATES
FOR
QUARTER ENDING SEPTEMBER 30, 2005**

	Loan Rate	Special Allowance Annual Rate	SA Quarterly Rate	Part IV: Special Allowance Category Column C
CA	Stafford Var (2.77%)	.0078	.001950	<u>CA</u> - for subsidized/unsubsidized Stafford loans made on/after 01/01/00 but prior to 07/01/06, only during the in-school, grace, and deferment periods.
CB	Stafford Var (3.37%)	.0078	.001950	<u>CB</u> - for subsidized/unsubsidized Stafford loans made on/after 01/01/00 but prior to 07/01/06, during the repayment and forbearance periods only .
CD	PLUS Var (5.26%)	0	0	<u>CD</u> - for PLUS loans made on/after 01/01/00 but prior to 07/01/06. Note: Special allowance will not be paid unless the calculated interest rate exceeds the 9% cap.

PLEASE NOTE: The three-month Commercial Paper average (bond equivalent rate) is **3.74%** for the third quarter of **2005**. This results in the following yields:

CA 3.74% plus 1.74% = 5.48%
CB 3.74% plus 2.34% = 6.08%
CD 3.74% plus 2.64% = 6.38%